COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF GREEN RIVER VALLEY WATER DISTRICT, HART, BARREN, AND LARUE COUNTIES KENTUCKY, FOR AUTHORITY TO ADJUST RATES	)	CASE NO. 8668

O R D E R

On September 29, 1982, Green River Valley Water District ("Green River") filed an application with this Commission requesting authority to increase its revenues by approximately $154,264 annually, an increase of 27 percent. However, it has been determined that the proposed rates will only increase revenues by approximately $146,230, annually an increase of 25 percent. Based on the determination herein the revenues of Green River will increase by $151,162 annually, an increase of 25 percent.

A public hearing was held in this matter on January 27, 1983, in the Commission's offices in Frankfort, Kentucky. No parties moved to intervene.

COMMENTARY

Green River is a nonprofit water distribution system organized and existing under the laws of the Commonwealth of

Kentucky, and serves approximately 2,170 customers in Hart, Barren, and Larue counties. Approximately 58 percent of the water Green River produces is provided to other utilities for resale under wholesale contracts.

TEST PERIOD

Green River proposed and the Commission has accepted the 12-month period ending June 30, 1982, as the test period for determining the reasonableness of the rates approved herein. Appropriate pro forma adjustments have been included for rate-making purposes.

REVENUES AND EXPENSES

Green River proposed several adjustments to revenues and expenses as reflected in its comparative income statement, Exhibit 1. The Commission is of the opinion that the proposed adjustments are generally proper and acceptable for rate-making purposes with the following modifications:

Miscellaneous Service Revenues

Green River proposed no adjustments to miscellaneous operating revenue for the test period. The following items have been included in this account:

(1) A credit in the amount of $1,762 from Kentucky Utilities for over billing on electric bills in a prior period,

(2) $193 from insurance reimbursement for damages,

(3) Interest income of $1,142 earned from an interest bearing "NOW" account,

(4) $400 received as reimbursement for travel expenses,

(5) $1,830 identified as contract labor received for laying water lines.

The inclusion of some of these items in this account is not in accordance with the Uniform System of Accounts for Water Utilities as prescribed by this Commission. The improper accounting for these items results in an overstatement of net operating income on the test year operating statement. The credit for over billing, the insurance reimbursement, and the travel reimbursement should be credits to the applicable expense account. However, if these items are associated with prior accounting periods, the amounts should be included in adjustments to Retained Earnings, Account No. 439. The amount for contract labor should be included in Revenue from Merchandising Jobbing and Contract Work, Account No. 415.

The NOW Account was temporary in nature and is no longer maintained by Green River. Therefore, an adjustment should be made for rate-making purposes to recognize the deletion of this item. However, if income is realized from items such as this in the future, it should be included in Interest and Dividend Income, Account No. 419.

The Commission has reduced miscellaneous service revenue by $5,327 to reflect these changes, which result in total test period miscellaneous service revenue of $1,493.

Power For Pumping

Green River proposed an adjustment to increase power for pumping expense by $10,000 over actual test period costs. Item No. 13(2) of the response to the Commission's Order dated December 9, 1982, reflects that the adjustment is based on a $10,000 increase for each of the 3 years preceding the test period. No evidence was presented to show that an increase in power usage is anticipated or that the test year usage is abnormal. In accordance with present practice the usage from the monthly bills has been applied to the most recent tariffs of the utilities which serve Green River to arrive at a reasonable level of expense for rate-making purposes. Based on this determination an adjustment has been made by the Commission to increase power for pumping expense by $3,200.

Chemicals

Green River proposed an adjustment to increase chemical expense by $1,205 over actual test period costs. Item No. 13 (3) of the Commission's Order dated December 9, 1982, requested the basis for this proposed increase. The response indicated that this expense was down from the amount reported in the previous period and it was anticipated that the expense would increase by 10 percent over the test period amount. However, no basis was introduced for the 10 percent figure used to arrive at the proposed adjustment. Mr. Elroy Larimore, Manager, testified at the hearing that this account fluctuates because Green River draws water from a spring and a river. When water is drawn from the river, additional chemical treatment is required and chemical usage increases. Mr. Larimore anticipated that the use of the river water would increase during the next 12 months due to a recent conflict with an adjacent property owner over use of the spring.

The Commission recognizes that increased use of the river water may result in increased chemical use. However, Green River has failed to produce sufficient evidence of a known and measurable change. Therefore, the Commission has determined that an adjustment to this expense is not justified.

Repairs and Maintenance

Green River proposed an adjustment to increase repairs and maintenance expense by $5,117 over actual test period costs. Item No. 13(4) of the response to the Commission's Order dated December 9, 1982, stated that this expense was substantially lower during the test period compared to the previous year. The proposed adjustment is based on an average of the 2 years combined.

The Commission is of the opinion that the proposed adjustment is speculative in nature. Green River has established that the amount reported for the test period is less than the amount reported for the previous period. However, no evidence has been presented which could support a known and measurable change to this expense. Therefore, the Commission has determined that no adjustment shall be allowed for rate-making purposes.

Office Supplies

Green River proposed an adjustment to increase office supplies expense by $731 over actual test period results. Item No. 13(6) of the response to the Commission's Order dated December 9, 1982, indicates that the adjustment is based on a projected 10 percent increase over the previous year. The Commission is of the opinion that the basis for this adjustment is speculative and support has not been presented to substantiate a known and measurable change. Therefore, the Commission has determined that no adjustment should be made to this expense.

Employee Benefits and Retirement

Green River proposed an adjustment to increase employee benefits and retirement expense by $2,557 over actual period results. The basis for this adjustment was requested in Item No. 13(7) of the Commission's Order dated December 9, 1982. It was stated in response to this request that employee benefits and retirement were increased by 10 percent in relation to the 10 percent increase in salaries. The Commission is of the opinion that Green River has failed to properly relate the wage increase to the proposed increase in employee benefits and retirement and that sufficient evidence has not been presented which would allow a proper determination of the amount required for this adjustment. Therefore, the Commission has determined that no adjustment should be made to this expense.

Depreciation

The depreciation expense for the test period was based on the total utility plant in service of $6,360,462. It is the policy of the Commission to compute depreciation expense for rate-making purposes on the basis of the original cost of the plant in service less contributions in aid of construction. The Commission has determined that contributions in aid of construction represent approximately 21 percent of the total cost of utility plant in service. Therefore, depreciation expense has been reduced by $32,327 for the test period to exclude depreciation on assets purchased with contributions in aid of construction.(1)

Taxes Other Than Income

Green River proposed an adjustment to increase other taxes expense by $1,060 over actual test period results. The basis for this adjustment was requested in Item No. 13(8) of the Commission's Order dated December 9, 1982. The response stated that taxes other than income were increased by 10 percent to reflect the 10 percent increase in wages. The Commission is of the opinion that Green River has failed to present sufficient evidence which would support the rationale for using 10 percent as a basis for increasing this expense. However, the Commission

(1) $$\frac{\text{Contributions In Aid of Construction (Avg.)}}{\text{Plant In Service (Avg.)}} \qquad \frac{\$1,305,885}{\$6,307,861} = 21\%$$

$153,937 (Depreciation Expense) x .21 = $32,327 is aware that the employer's share of payroll taxes will increase because of the addition of a new employee and the wage increase to existing employees. Therefore, the Commission has made an adjustment to increase taxes other than income by $1,426 to reflect the increase in the employer's share of payroll taxes.

Interest Income

Green River proposed an adjustment to decrease interest income by $8,493 below actual test period levels. Item No. 13 (9) of the response to the Commission's Order dated December 9, 1982, reflects that the adjustment is based on an estimated decline in the interest rates associated with invested funds. Green River filed an analysis of its investment portfolio in response to Item No. 7 of the Commission's Order dated October 29, 1982. An update to the analysis was filed in response to Item No. 10 of the Commission's Order dated December 9, 1982. Based on these documents and on testimony at the hearing the Commission is of the opinion that interest rates and the amount of funds for investment have declined since the end of the test period. Therefore, the Commission has determined that an adjustment should be made to reduce interest income by $8,119. This adjustment was based on the amounts and rates associated with invested funds at the end of the test year. An allowance has been made for the disbursement of certain investment funds subsequent to the end of the test period and for certain investments which had matured as of December 31, 1982, and were re-invested at a lower rate because of the general decline in interest rates.

After consideration of the aforementioned adjustments the Commission finds that Green River's test period operations are as follows:

	Actual Test Period	Pro Forma Adjustments	Adjusted Test Year
Operating Revenue	$588,845	$ 4,753	$593,598
Operating Expenses	484,780	(8,339)	476,441
Operating Income	$104,065	$13,092	$117,157
Interest on Long Term Debt	$230,863	$(2,030)	$228,833
Amortization of Debt Discount	3,049	-0-	3,049
Interest Income	38,493	(8,119)	30,374
Other Income	1,600	1,830	3,430
Net Income	$(89,754)	$ 8,833	$(80,921)

REVENUE REQUIREMENTS

Green River's debt service based on the average principal and interest payments due within the next 5 years is $278,371. Its bond ordinances require a 1.2 debt service coverage ratio. The adjusted test period operating statement reflects a net loss of $80,921 which provides inadequate coverage on Green River's debt service obligations. The Commission is of the opinion that the adjusted operating income is inadequate and will adversly affect the financial condition of Green River.

To improve Green River's financial condition, additional revenues of $151,162 will be required. Based on adjusted test period results, total revenues of $744,760 will produce net income of $70,241 which, after considering interest income of $30,374 and other income of $3,430, will be sufficient to allow Green River to pay its operating expenses and meet its annual debt service obligations.

MAINTENANCE AND BILLING SERVICES

Green River filed evidence in this case which reflects the annual cost per customer to provide maintenance and billing services to certain municipal customers within its service area. The current rate of $3 per month is not adequate to cover the cost of providing these services. However, Green River has not proposed to adjust the rate in this case. The test period income statement reflects that 10 percent of Green River's total revenue was derived from these services. In addition, the revenue and expenses associated with the services are included in the operating section of the income statement.

Mr. Larimore was questioned at the hearing concerning Green River's decision not to change the maintenance and billing rate. It was his opinion that Green River was recovering the cost in providing these services. However, the Commission is of the opinion that this testimony is contrary to Exhibit V of the application which shows that the cost of providing these services on a customer basis is in excess of the charge. If the rate is not increased Green River's retail water customers will be subsidizing the maintenance and billing services provided to the municipal customers. Therefore, the Commission is of the opinion that the rate should be increased to $3.25 per meter to recover the costs of providing these services.

The maintenance and billing services provided by Green River are separate and distinct from the services provided to its retail customers. The method of accounting used by Green River for the maintenance and billing services is improper for rate-making purposes and does not conform to the Uniform System of Accounts for Water Utilities as prescribed by this Commission. The revenue and expenses associated with these services should be included in Account Nos. 415 and 416, respectively. In addition, an allocation procedure should be developed to readily identify the applicable costs for rate-making purposes.

PROPOSED REVENUES

Green River's pro forma operating statement reflected an increase in revenues from the proposed rates of $154,264. However, when the proposed rates are applied to the billing analysis for the test year they produce additional annual revenues of only $146,230. In determining the revenue produced from the proposed rates, Green River inadvertently included the volume of usage covered by the minimum bill twice, which results in an overstatement of the total revenues produced from the rates.

As discussed in the preceding section of this Order Green River did not propose to increase its rate for providing maintenance and billing services. The Commission, however, has determined that the rate should be increased to recover the cost of providing these services. The rate allowed herein for maintenance and billing services will produce additional annual revenues of $4,932. The total additional annual revenues produced from the proposed rates and the increase in maintenance and billing service rate is $151,162 which is less than the $154,264 originally requested by Green River.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. The rates in Appendix A are fair, just and reasonable rates for Green River in that they will produce annual revenues of $744,760 and should be approved. This revenue, along with other income of $3,430 and interest income of $30,374, will be sufficient to meet Green River's operating expenses found reasonable for rate-making purposes, service its debt, and provide a reasonable surplus.

2. The rates proposed by Green River will produce the amount of revenue found reasonable herein and should be approved.

3. Green River is not recovering the costs of providing maintenance and billing services to certain municipal customers, and the rate associated with these services should be increased.

4. Green River is not in compliance with the Uniform System of Accounts for Water Utilities in specific areas outlined herein, and appropriate changes should be made to the books of account to bring them into compliance with the requirements of this Commission.

IT IS THEREFORE ORDERED that the rates in Appendix A be and they hereby are approved for service rendered by Green River on and after the date of this Order.

IT IS FURTHER ORDERED that the rates proposed by Green River be and they hereby are approved.

IT IS FURTHER ORDERED that Green River shall adjust its accounting records to conform to the Uniform System of Accounts for Water Utilities. Furthermore, all subsequent filings with this Commission shall reflect the changes specified herein.

IT IS FURTHER ORDERED that within 30 days from the date of this Order Green River shall file with this Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 25th day of March, 1983.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 8668 DATED MARCH 25, 1983.

The following rates and charges are prescribed for the customers in the area served by Green River Valley Water District/ All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of the Commission prior to the date of this Order.

Rates: Monthly

5/8 x 3/4 INCH METER

First	2,000	gallons	$7.50 Minimum Bill
Next	8,000	gallons	1.90 per 1,000 gallons
Next	10,000	gallons	1.55 per 1,000 gallons
Next	30,000	gallons	1.25 per 1,000 gallons
Next	50,000	gallons	1.05 per 1,000 gallons
Over	100,000	gallons	1.00 per 1,000 gallons

1 INCH METER

First	5,000	gallons	$13.20 Minimum Bill
Next	5,000	gallons	1.90 per 1,000 gallons
Next	10,000	gallons	1.55 per 1,000 gallons
Next	30,000	gallons	1.25 per 1,000 gallons
Next	50,000	gallons	1.05 per 1,000 gallons
Over	100,000	gallons	1.00 per 1,000 gallons

1½ INCH METER

First	10,000	gallons	$22.70 Minimum Bill
Next	10,000	gallons	1.55 per 1,000 gallons
Next	30,000	gallons	1.25 per 1,000 gallons
Next	50,000	gallons	1.05 per 1,000 gallons
Over	100,000	gallons	1.00 per 1,000 gallons

2 INCH METER

First 16,000 gallons	$32.00 Minimum Bill
Next 4,000 gallons	1.55 per 1,000 gallons
Next 30,000 gallons	1.25 per 1,000 gallons
Next 50,000 gallons	1.05 per 1,000 gallons
Over 100,000 gallons	1.00 per 1,000 gallons

WHOLESALE RATES

City of Horse Cave	$0.80 per 1,000 gallons
City of Cave City	0.80 per 1,000 gallons
Maintenance charge per customer for above two cities	$3.25 per month
City of Munfordville	$0.80 per 1,000 gallons
Larue County Water District	$0.60 per 1,000 gallons